ANNUAL REPORT 1973

KAISER RESOURCES LTD.

KAISER RESOURCES LTD.

Kaiser Resources Ltd. is a publicly-held company incorporated under the laws of British Columbia. The Company is mining and developing coal deposits near Sparwood, in the East Kootenay area of southeastern British Columbia. Kaiser Resources supplies a large volume of metallurgical coal for Japanese steel mills, as well as smaller amounts of other coal and coke products for customers in Canada, the United States and Europe.

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Operations Office:
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Port Operations:
Westshore Terminals Ltd.
Delta, B.C.
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1973 AT A GLANCE

	Year Ended December 31 1973	1972
Shipments (long tons)	4,915,000	4,289,000
Sales	$97,439,000	$81,657,000
Net Earnings (loss)		
Earnings Before Extraordinary Items	$ 2,784,000	$ (5,657,000)
Extraordinary Items	694,000	(7,363,000)
Net Earnings (Loss)	$ 3,478,000	$(13,020,000)
Net Earnings (Loss) Per Common Share		
Earnings Before Extraordinary Items	$ .18	$ (.56)
Extraordinary Items	.04	(.74)
Net Earnings (Loss)	$ .22	$(1.30)
Weighted Average Number of Shares Outstanding	15,917,000	10,000,000
Depreciation, Depletion and Amortization of Preproduction and Development Costs	$13,829,000	$14,122,000
Capital Expenditures	$ 9,453,000	$ 6,660,000
Long-Term Debt	$46,002,000	$83,650,000
Shareholders' Equity	$95,434,000	$36,955,000
Number of Employees	1,725	1,575

TO OUR SHAREHOLDERS

The year 1973 was one of accomplishment for Kaiser Resources. It was a year in which the Company, in co-operation with Kaiser Steel Corporation, our Japanese customers and principal creditors, took steps necessary to create a sound economic foundation for the future. As part of these steps, our Japanese customers made an equity investment in the Company and we welcome them as partners.

Kaiser Resources became profitable in 1973 after several years of substantial losses. Consolidated net earnings amounted to $3,478,000 or 22 cents per share, compared with a consolidated net loss in 1972 of $13,020,000 or $1.30 per share. The 1973 results included extraordinary income of $694,000 resulting from tax losses carried forward to income of subsidiary companies and foreign exchange gains of $1,485,000 resulting primarily from the retirement of U.S. dollar debt obligations. Results in 1972 included an extraordinary charge of $7,363,000 resulting from writedowns in values of certain equipment and facilities.

In 1973, we negotiated revisions to our long-term sales contracts with Mitsubishi Corporation, undertook an equity program, and reached new credit agreements with Canadian banks and Mitsubishi Canada Limited. These steps, combined with record sales and lower production costs, enabled the Company to turn a loss position into a profit.

The revised sales contracts raised the price the Company receives for metallurgical coal shipped to Japan, established provisions for price escalation to cover increases in costs, and set the annual tonnage of metallurgical coal the Company is required to ship under the contracts at 4.5 million long tons, plus or minus five per cent.

The refinancing program negotiated in conjunction with the contract amendments enabled the Company to lower interest charges through reduction of long-term debt. Of $55 million provided through the program by Kaiser Steel, Mitsubishi Corporation and nine Japanese consumers of the Company's coal, approximately $51.5 million was used to reduce debt. The refinancing contained a provision for the issuance of warrants to the Company's public shareholders. As a result, 2,500,000 warrants were issued to shareholders of record March 4, 1974 on the basis of one warrant for each share held. Each warrant entitles the holder to purchase one new share in the Company at $2.85 until the expiry date of December 31, 1976.

Improved efficiency enabled the Company to reduce operating costs and attain a record level of production in 1973. This improved performance was largely attributable to better equipment utilization as a result of improvements in preventive maintenance begun in 1972, the addition of new equipment, and a reduction in the rate of employee turnover. Records were established in shipments of metallurgical coal to Japan despite railway strikes which interrupted coal shipments to our port facilities at Roberts Bank. The strikes resulted in the Elkview coal preparation plant at Sparwood being shut down for a total of 28 days in August and September.

During the year, coal took on new importance as many countries looked to alternate sources of energy as a result of the international oil crisis. While the Company is primarily a producer of metallurgical coal used in steelmaking, it also has smaller supplies of thermal or oxidized coal used in producing heat and energy. As a result of increased demand in recent months, the Company has negotiated sales of thermal coal to buyers in Europe and Eastern Canada. Under these agreements, more than 300,000 long tons of thermal coal will be delivered to customers in 1974 and 200,000 long tons in 1975.

In March, 1974 the Company negotiated further modifications to the sales contracts with its Japanese customers to permit higher metallurgical coal prices by revising escalation terms to reflect existing economic conditions and by increasing the moisture specification of coal. A price increase of 10 cents per long ton was granted with respect to loading charges at the Roberts Bank port.

In 1974 we expect a further improvement in earnings as a result of the contract amendments, oxidized coal sales, concerted efforts to further stabilize operations and continuing progress towards obtaining maximum use of existing equipment and facilities.

This year is the 60th anniversary of the founding in Vancouver of the first Kaiser company. The Henry J. Kaiser Company Limited, the forerunner of today's Kaiser companies, was incorporated in the City of Vancouver as a road-paving concern on December 14, 1914. Above, Edgar F. Kaiser and Edgar F. Kaiser, Jr. stand before a painting of the founder, the late Henry J. Kaiser.

A new two-year collective bargaining agreement was reached early this year with the United Mine Workers of America, representing more than 1,200 employees at the Sparwood mine. This agreement provided substantial improvements in wages and fringe benefits and is expected to assist the Company in recruiting employees for the underground mines and in minimizing employee turnover.

On behalf of the Board of Directors, we take this opportunity to express thanks to our employees for the skill and dedication which they have applied to their duties, and to our shareholders for their support and confidence.

Edgar F. Kaiser,
Chairman

Edgar F. Kaiser, Jr.,
President and Chief Executive Officer

April 1, 1974

OPERATIONS REVIEW

MINING OPERATIONS

Record production levels were reached in the Company's Sparwood mining operations during 1973. A total of 6.2 million long tons of raw metallurgical coal was produced compared with 5.6 million long tons in 1972.

Surface mining production of raw metallurgical coal increased from 4.7 million long tons in 1972 to 5 million long tons in 1973. This increase reflects improved equipment performance resulting from improvements in preventive maintenance started in 1972 and the addition of new equipment in 1973. A major improvement in the productivity of the four 25-cubic-yard shovels was experienced despite some continuing structural problems. One 15-yard shovel and four 100-ton trucks were purchased to replace the 54-yard dragline. The dragline was sold in January, 1974 after having performed unsatisfactorily in the mountainous terrain of southeastern British Columbia.

The Company purchased three new 200-ton trucks during the year and completed the tire changeover program started in 1972. Larger tires were installed on the entire fleet of 200-ton trucks, reducing tire costs significantly. The basic surface mining equipment now includes twenty 200-ton trucks, twenty-eight 100-ton trucks, four 35-ton trucks, four 25-yard shovels, three 15-yard shovels, two eight-yard shovels, seven rotary drills, 25 bulldozers, four front-end loaders, seven graders and two scrapers.

Underground mining production reached a record 1,134,000 long tons of raw metallurgical coal, up from 896,000 long tons in 1972. Of the total, 816,000 long tons were produced by the hydraulic mining method and 318,000 long tons by the conventional underground method. Hydraulic mining is a unique system which utilizes high-pressure water jets to dislodge, break and convey coal to surface facilities. The Company is currently carrying out design work to expand the existing dewatering system for the operation and to install more efficient coal-handling facilities at a total cost of $1.4 million. When completed in late 1974 or early 1975, hydraulic mining production capacity will have been increased to 1.2 million long tons per year.

The Elkview preparation plant produced slightly in excess of 4.5 million long tons of clean metallurgical coal, within contract specifications. This production level was attained despite shutdowns of the plant for a total of 28 days during August and September due to rail strikes which interrupted coal shipments from the mine to the Roberts Bank port. The yield of clean coal from raw coal fed to the Elkview plant was approximately 78 per cent. The Michel by-products plant produced 141,000 long tons of coke and 684,000 Imperial gallons of tar. The plant also screened and dried 70,000 long tons of oxidized coal and 172,000 long tons of raw metallurgical coal feed for the coke ovens.

PORT FACILITIES

The Company's bulk-loading port facility at Roberts Bank near Vancouver is operated by Westshore Terminals Ltd., a wholly-owned subsidiary. In 1973, Westshore loaded a record 7.2 million long tons of coal, coke and related products aboard ships for export markets, up sharply from the 4.9 million tons loaded in 1972. The 1973 total included 4.7 million long tons of Kaiser Resources' coal, compared with approximately 4 million long tons in 1972.

Coal stockpiling and shiploading at the port was adversely affected in 1973 by the failure in March of a main bearing in the stacker-reclaimer. Replacement of the bearing was completed in October and the equipment was returned to service. During the year Westshore Terminals emptied 74,000 rail cars from 945 trains and loaded 104 ships.

A new two-year collective agreement effective February 1, 1973 was reached between Westshore Terminals and the International Longshoremen's and Warehousemen's Union. The union represents approximately 40 employees at the port.

THE ENVIRONMENT

Reclamation and environmental control programs to maintain government standards are an integral part of the Company's operations. The basic objective of the reclamation program is to rehabilitate disturbed lands in the Sparwood area associated with past and present mining activity.

Reclamation costs for 1973 amounted to $128,000 and covered site preparation, grass seeding, tree planting and the operation of a nursery and greenhouse. Another $130,000 was spent in the purchase of heavy equipment for use in reclamation activities which are expected to increase substantially in the next several years. The program for 1974 includes seeding, reseeding and planting of about 130 acres and site preparation of another 152 acres. Trees available for planting in the spring include several native species propagated from seed in the Company's nursery and 43,000 poplars grown from cuttings. Approximately 70,000 trees are expected to be planted in 1974, compared with 52,000 planted in 1973.

The objective of the environmental control program is to ensure that the Company's operations are conducted in accordance with legislative requirements so as to cause the least possible disturbance to the environment. In order to achieve this objective, the Company continued to monitor streams for signs of silting as a result of mining operations, reviewed dust control measures, evaluated water recycling systems and monitored air emissions from the Elkview plant.

The Company also worked with the federal Environmental Protection Service, CP Rail and other Canadian coal companies on the problem of coal dust from rail cars in transit to the Roberts Bank port. The group is conducting tests in an effort to find a solution to the problem as soon as possible.

A new settling lagoon to contain waste fines from the Elkview plant was brought into service in 1973. The lagoon, which covers 109 acres, required the construction of a 500,000 cubic-yard embankment. At the hydraulic mine site, a remedial program costing approximately $150,000 was carried out to avoid accidental discharges of coal slurry.

The coke-making facilities at Michel were constructed over 40 years ago. The Company expects that provincial regulations will be issued which may contain requirements which could not be met without substantial capital expenditure. Such requirements could result in closure of the existing facilities. The Company assumes that any such regulations would allow a reasonable time within which to achieve compliance.

PERSONNEL

The number of employees of the Company and its subsidiaries rose from 1,575 in 1972 to 1,725 by the end of 1973. Of this number, 1,355 were in production and 370 in technical, supervisory and administrative activities. Total wages, salaries and benefits paid to employees in 1973 was $21,785,000, compared with $18,143,000 in 1972.

Employee turnover at the mine was reduced to about 4.8 per cent per month during 1973. However, a further reduction in this rate is not anticipated. The Company continues to experience difficulty in attracting sufficient underground personnel and has expanded its recruiting and training programs in this area.

In January, 1974 the Company and the United Mine Workers of America, representing production and maintenance employees at the mine, signed a two-year collective agreement providing substantial improvements in wages and fringe benefits. Terms of the contract are expected to assist the Company in attracting additional employees, particularly for the underground operations. In October, 1973 the Company and the Office and Technical Employees' Union signed a collective agreement expiring December 31, 1975. It is the first contract between the Company and the union, representing approximately 100 employees at Sparwood.

FINANCIAL SUMMARY

NET EARNINGS

Net earnings for the year ended December 31, 1973 were $3,478,000 or 22 cents per share based on a weighted average of 15,917,000 shares outstanding during the year.

These results include extraordinary income of $694,000, equivalent to four cents per share, resulting from tax losses carried forward to income of subsidiary companies. Also included are foreign exchange gains of $1,485,000 or nine cents per share resulting primarily from the retirement of U.S. dollar debt obligations.

In 1972 the Company reported a loss of $13,020,000 or $1.30 per share, based on 10 million shares outstanding. The results included an extraordinary charge of $7,363,000 or 74 cents per share attributable to writedowns in the value of the dragline and certain other equipment and facilities no longer in use. The Company will record income of approximately $400,000 in the first quarter of 1974 from the sale of the dragline and related parts in January.

SALES

In 1973 sales revenue totalled $97,439,000 compared with $81,657,000 in 1972. Shipments of metallurgical coking coal to Japanese steel mill customers in 1973 amounted to 4,675,000 long tons, while other shipments included 70,000 long tons of thermal coal and 170,000 long tons of coke and related products. In 1972 shipments included 4,046,000 long tons of metallurgical coal to Japan, 102,000 long tons of thermal coal and 141,000 long tons of coke and related products.

The Company has concluded agreements for the sale of thermal coal to buyers in Europe and Eastern Canada, with shipments to take place in 1974 and 1975. The agreements cover shipments in 1974 of 175,000 long tons to Denmark, 120,000 long tons to France and a test shipment of 25,000 short tons to Ontario Hydro. In addition, the Company has agreed to sell 200,000 long tons of thermal coal to France in 1975. The shipments to Denmark and France will be handled through the Roberts Bank port. The thermal coal for Ontario Hydro will be shipped by rail from Sparwood to Thunder Bay, Ontario, from where it will be shipped to Toronto by lake movement.

Sale of coke is an important source of profitability to the Company. However, future production is subject to uncertainties relating to the extent to which the coke ovens can be operated economically within environmental requirements and the remaining productive life of the ovens.

SALES CONTRACTS

On July 1, 1973 revised sales agreements between the Company and Mitsubishi Corporation went into effect. The amended contracts, effective through March 31, 1985, provide for annual delivery of 4.5 million long tons of metallurgical coal, plus or minus five per cent at the buyer's option, with an ash specification of 9.5 per cent and an 0.5 per cent tolerance. The price of coal under the revised contracts is $19.85 per long ton through March 31, 1975. Upon request by the Company, an increase of up to 50 cents per long ton will be effective on April 1, 1975. Price reviews are provided for in 1976 and 1980, with the matter submitted to binding arbitration should the parties fail to reach agreement.

In March, 1974 the Company and its Japanese customers reached an agreement to permit higher coking coal prices by relaxing escalation terms of the sales contracts and by changing as of April 1, 1974 the moisture specification of coal from six per cent to eight per cent. Under the contracts, the Company is subject to penalties for coal which exceeds the moisture specification.

In the recent amendment, the escalation ceiling for the period July 1, 1973 to March 31, 1975 was raised from U.S. 80 cents to Canadian $2.00, of which 96 cents is being used to cover increases in materials and labor costs previously announced. In addition, Mitsubishi agreed to use its best efforts to fully cover any escalation in costs above the ceiling for the period ending March 31, 1975 and for escalation in costs for the 12 months ending March 31, 1976, but such matters will require further discussion.

Escalation will be allowed outside the ceiling to fully cover cost increases under the contracts, resulting from implementation of British Columbia mineral land tax regulations. A price increase of 10 cents per long ton effective April 1, 1974 was granted with respect to loading charges at the Roberts Bank port.

Port escalation will be allowed at a rate of two cents per short ton annually instead of every two years as previously agreed. The contract price of coal on April

1, 1974 was $21.05 per long ton. This price excluded pending escalation for rail, labor, materials and corporation capital tax, and any adjustments for British Columbia mineral land tax.

In 1973 the Company was released from its obligations to Mitsubishi with respect to the special cost assistance program in effect from June 11, 1971 to June 30, 1972. Under that program, the Company received and included in revenue U.S. $8,750,000.

REFINANCING PROGRAM

The 1973 refinancing program was negotiated in conjunction with the amendment of the Company's sales contracts with Mitsubishi Corporation. The program provided for an equity investment in the Company by Mitsubishi and nine Japanese coking coal consumers, a further equity investment by Kaiser Steel Corporation and the issuance of warrants to public shareholders entitling them to purchase additional shares in the Company.

In June, 1973 Kaiser Steel invested $27.5 million in the Company through purchase of 4,606,105 shares at $3.80 per share for cash and 2,105,263 shares at $4.75 per share for cancellation of $10 million of Company indebtedness to Kaiser Steel. This was followed in August by the purchase of 7,236,000 shares by the Japanese purchasers at $3.80 per share, also representing an investment of $27.5 million. The $55 million resulting from the equity program was used to retire approximately $51.5 million of indebtedness and to add $3.5 million to working capital. The final step in the equity program involved the issuance of 2,500,000 warrants to the Company's public shareholders of record on March 4, 1974 on the basis of one warrant for each share held. Each warrant entitles the holder to purchase one new share in Kaiser Resources at $2.85. The expiry date for exercise of the warrants is December 31, 1976.

If all the warrants are exercised, the Company will receive proceeds of $7,125,000, less expenses incurred by the offering. However, the Company does not expect to receive substantial funds through exercise of the warrants until 1976. If all the warrants are exercised, Kaiser Steel's ownership in Kaiser Resources will be reduced to 53.7 per cent from 59.4 per cent, the Japanese group's interest will be reduced to 27.4 per cent from 30.2 per cent and public ownership will be increased to 18.9 per cent from 10.4 per cent.

In conjunction with the equity program, the Company executed new credit agreements with its three Canadian banks for $22.5 million and with Mitsubishi Canada Limited for U.S. $16 million. These amounts represent the balance of the Company's long-term debt outstanding to the Canadian banks and Mitsubishi after application of the proceeds from the equity program. The two agreements are similar in structure, call for repayment in 20 quarter-annual installments beginning March 31, 1974, and are fully guaranteed by Kaiser Steel. Kaiser Steel may be released from its obligation to further guarantee the Company's indebtedness after December 31, 1974 provided the Company meets certain financial conditions. The agreements prohibit the declaration or payment of dividends prior to July 1, 1974, and allow payment of dividends after that date only when certain shareholder equity and working capital requirements are met. (For further details relating to the release of Kaiser Steel's guarantees and the payment of dividends, see Notes to the Financial Statements.)

CAPITAL PROGRAMS

Capital expenditures for facilities and equipment amounted to $9.5 million in 1973. Major purchases in the year included one 15-yard shovel and four 100-ton trucks to replace the dragline, three 200-ton trucks, 30 duplex homes for employee housing in Sparwood, and expenditures for normal equipment replacements and facility improvements.

At December 31, 1973, investment in property, plant and equipment at cost totalled $157.2 million, including $14.7 million attributable to Westshore Terminals Ltd. Current estimates for 1974 capital expenditures total approximately $8 million.

FINANCIAL STATEMENTS

KAISER RESOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
Sales	$ 97,439,139	$ 81,657,329
Other revenue	900,183	1,131,534
	98,339,322	82,788,863
Costs and expenses:		
Cost of products sold	66,146,980	58,318,328
Selling, administrative and general	8,126,713	7,474,441
Interest on long-term debt	8,202,676	8,622,496
Depreciation and depletion	12,321,917	12,581,869
Amortization of preproduction and development costs	1,506,972	1,539,832
	96,305,258	88,536,966
Earnings (loss) from operations	2,034,064	(5,748,103)
Foreign exchange gains (Note A)	1,485,233	90,835
Earnings (loss) before provision for income taxes and extraordinary items	3,519,297	(5,657,268)
Provision for income taxes (Note K)	735,000	—
Earnings (loss) before extraordinary items	2,784,297	(5,657,268)
Extraordinary items (Note L)	694,000	(7,362,523)
Net earnings (loss) for the year	$ 3,478,297	$ (13,019,791)
Net earnings (loss) per common share (Note M):		
Before extraordinary items	$ .18	$(.56)
Extraordinary items	.04	(.74)
Net earnings (loss) for the year	$ .22	$(1.30)

See notes to the consolidated financial statements.

KAISER RESOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1973

	1973	1972
Source of funds:		
Earnings (loss) before extraordinary items	$ 2,784,297	$ (5,657,268)
Items not requiring an outlay of funds:		
Amortization of preproduction and development costs and other deferred charges	1,506,972	1,588,041
Depreciation and depletion	12,321,917	12,581,869
Provision for income taxes	694,000	–
	14,522,889	14,169,910
Total funds provided by operations	17,307,186	8,512,642
Issuance of capital stock	44,999,999	–
Additions to long-term debt	3,891,546	2,333,117
Total source of funds	66,198,731	10,845,759
Application of funds:		
Purchase of property, plant and equipment and other assets	9,196,909	6,237,977
Long-term debt:		
Total reductions	55,816,248	3,964,190
Less: Conversion to capital stock	10,000,000	–
Total repayments	45,816,248	3,964,190
Less: Repayment of installments due within one year	31,850,576	3,964,190
Repayment of debt not due within one year	13,965,672	–
Reclassified to installments due within one year	17,573,986	18,494,303
Reduction of long-term debt	31,539,658	18,494,303
Total application of funds	40,736,567	24,732,280
Net increase (decrease) in working capital (see below)	25,462,164	(13,886,521)
Working capital (deficiency) at beginning of year	(21,086,303)	(7,199,782)
Working capital (deficiency) at end of year	$ 4,375,861	$ (21,086,303)
Summary of increase (decrease) in working capital:		
Cash and short-term deposits	$ 7,428,783	$ 404,464
Trade accounts receivable	(243,141)	705,111
Insurance claims receivable	(710,998)	(258,329)
Inventories	(1,416,998)	4,227,108
Prepaid expenses	275,046	59,023
Accounts payable	(589,325)	413,870
Employment costs and amounts withheld from employees	(38,505)	209,192
Accrued interest payable - parent company	1,263,355	–
Other accrued liabilities	217,357	(116,847)
Short-term bank loans	5,000,000	(5,000,000)
Installments due within one year on long-term debt	14,276,590	(14,530,113)
	$ 25,462,164	$ (13,886,521)

KAISER RESOURCES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1973

ASSETS

	1973	1972
Current assets:		
Cash and short-term deposits	$ 10,198,601	$ 2,769,818
Trade accounts receivable	1,464,975	1,708,116
Insurance claims receivable	—	710,998
Inventories (Notes A and C)	11,777,543	13,194,541
Prepaid expenses	484,805	209,759
	23,925,924	18,593,232
Other assets (Note D)	2,638,965	2,923,108
Property, plant and equipment - at cost:		
Land	17,178,271	17,178,271
Buildings and land improvements	46,924,030	45,984,993
Machinery and equipment	91,657,550	84,899,410
Construction work in process	1,480,255	108,834
	157,240,106	148,171,508
Less: Accumulated depreciation and depletion (Note A)	41,384,469	29,475,006
	115,855,637	118,696,502
Deferred preproduction and development costs less amounts amortized (Note A)	17,891,689	19,398,661
Other deferred charges	673,249	673,249
	$160,985,464	$160,284,752

On behalf of the Board:

Edgar F. Kaiser, Jr., Director

Ian N. McKinnon, Director

See notes to the consolidated financial statements.

KAISER RESOURCES LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1973

LIABILITIES AND SHAREHOLDERS' EQUITY

	1973	1972
Current liabilities:		
Accounts payable	$ 4,575,820	$ 3,986,495
Employment costs and amounts withheld from employees	2,035,487	1,996,982
Accrued interest payable - parent company	—	1,263,355
Other accrued liabilities	1,498,200	1,715,557
Short-term bank loans	—	5,000,000
Installments due within one year on long-term debt	11,440,556	25,717,146
	19,550,063	39,679,535
Long-term debt (Note E)	46,001,649	83,649,761
Shareholders' equity:		
Capital stock (Note F)		
Authorized — 28,000,000 common shares of par value $1 each		
Issued and fully paid — 23,947,368 shares (10,000,000 in 1972)	23,947,368	10,000,000
Contributed surplus (Note H)	68,729,879	60,000,000
Retained earnings from July 1, 1973 (Deficit) (Notes G and H)	2,756,505	(33,044,544)
	95,433,752	36,955,456
Commitments and contingencies (Note I)		
	$160,985,464	$160,284,752

KAISER RESOURCES LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1973

	Capital Stock			
	Shares Issued	Amount	Contributed Surplus	Retained Earnings (Deficit)
Balance January 1, 1972	10,000,000	$ 10,000,000	$ 60,000,000	$ (20,024,753)
Net loss	—	—	—	(13,019,791)
Balance December 31, 1972	10,000,000	10,000,000	60,000,000	(33,044,544)
Net earnings	—	—	—	3,478,297
Issuance of capital stock (Note F)	13,947,368	13,947,368	41,052,631	—
Application of accumulated deficit as of June 30, 1973 to contributed surplus (Note H)	—	—	(32,322,752)	32,322,752
Balance December 31, 1973	23,947,368	$ 23,947,368	$ 68,729,879	$ 2,756,505

See notes to the consolidated financial statements.

KAISER RESOURCES LTD. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 1973

Note A — Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Kaiser Resources Ltd. and its wholly-owned subsidiaries, Westshore Terminals Ltd., Kootenay Coal Contractors Ltd., Mountain View Realty Limited, and Balmer Mine Limited until July 31, 1973, at which time its net assets and operations were transferred to the parent company. Inter-company transactions, accounts and earnings have been eliminated.

Translation of Foreign Currency

Current assets and current liabilities where applicable, have been translated from U.S. Dollars at the rate of exchange prevailing at December 31, 1973. Applicable non-current assets and liabilities and certain capital transactions have been translated at rates in effect on the date each transaction occurred. Foreign currency gains on U.S. Dollar long-term debt obligations are recognized in earnings as debt is repaid.

Inventory Valuation

Inventories of coal and coke are valued at the lower of average cost, which excludes depreciation, and net realizable value. Inventories of operating supplies are valued at average cost less allowances for shrinkage and obsolesence.

Depreciation, Depletion and Amortization of Preproduction

Depreciation of property, plant and equipment is on a straight-line basis over the lesser of the estimated useful life of each asset or the remaining life of the 15 year sales contract with Mitsubishi Corporation. Expenditures for repairs and maintenance are charged against earnings. Cost of major assets sold, retired, or abandoned and the related amounts of the accumulated depreciation are eliminated from the accounts in the year of retirement and the resulting gain or loss reflected in the consolidated statement of earnings.

Depletion is provided at the rate of 10 cents per net ton of raw coal mined.

Deferred preproduction and development costs are amortized on a straight-line basis over a 15 year period, being the term of the original sales contract with Mitsubishi.

Note B — Export Sales Contract

The company exports substantially all of its metallurgical coal production to Japan under long-term sales contracts with Mitsubishi Corporation which in turn re-sells the coal to nine Japanese companies.

During 1973 the company concluded agreements with Mitsubishi Corporation, the nine Japanese companies who are consumers of coal under the metallurgical coal sales contract, Kaiser Steel Corporation, Mitsubishi Canada Limited and the Canadian Banks amending the coal sales contracts, restructuring long-term debt, and establishing an equity financing program. Details of the restructured debt and certain provisions of the new credit agreements are outlined in Notes E, G, and I. Shares issued under the equity financing program are as set forth in Note F.

The amended sales contract is effective from July 1, 1973 through March 31, 1985 and provides for the following principal changes (a) an increase in price to the U.S. Dollar equivalent of Canadian $19.85 per long ton, increasing at the request of the company by up to Canadian $.50 on April 1, 1975; (b) cost escalation up to a ceiling of U.S. $.80 per long ton through March 31, 1975 with the ceiling for the twelve months ending March 31, 1976 to be negotiated; (c) the right to negotiate an appropriate adjustment of the price to reflect increased costs due to the "Mineral Land Taxation Act" of the Province of British Columbia; (d) a delivery schedule of 4,500,000 long tons annually, plus or minus 5%; (e) revised ash specifications of 9.5%; and (f) price renegotiations for the period commencing April 1, 1976 and April 1, 1980 subject to binding arbitration if the parties are unable to reach agreement.

It was also agreed that the company is released from its obligations to compensate Mitsubishi Corporation for costs incurred by Mitsubishi with respect to the special cost assistance program in effect during the period from June 11, 1971 through June 30, 1972. The company received and included in revenue U.S. $8,750,483 under this special cost assistance program.

Note C — Inventories

	December 31, 1973	December 31, 1972
Inventories are summarized as follows:		
Clean coal and coke at lower of cost and net realizable value	$ 4,120,345	$ 6,634,942
Raw coal at lower of cost and net realizable value	1,404,007	305,201
Operating supplies at average cost, less valuation allowances for shrinkage and obsolescence of $1,118,814 ($963,503 in 1972)	6,253,191	6,254,398
	$ 11,777,543	$ 13,194,541

Note D — Other Assets

Includes second mortgages due under the employee housing program of $1,935,805. The mortgages are non-interest bearing and are forgiven at the rate of 10% of original amount for each completed year of service.

Note E — Long-Term Debt

	December 31, 1973	December 31, 1972
Canadian Bank Credit Agreement, unsecured, guaranteed by Kaiser Steel Corporation (Note I), interest at 1½% over Canadian prime, repayable in 20 quarterly installments ending in 1978	$ 22,500,000	$ 44,400,000
Mitsubishi Canada Limited Credit Agreement, U.S. $16,000,000, unsecured, guaranteed by Kaiser Steel Corporation, interest at 3% over U.S. prime, repayable in 20 quarterly installments ending in 1978	16,112,672	35,278,750
Kaiser Steel Corporation Note Payable	—	10,000,000
Bank of America National Trust and Savings Association and United California Bank Notes payable, unsecured, guaranteed by Kaiser Steel Corporation, interest at ½ of 1% over U.S. prime, balance of U.S. $10,925,000 repayable in 19 quarterly installments ending in 1978 (March 31, 1974 installment prepaid on December 31, 1973)	11,470,868	14,486,677
Mortgages payable, secured, interest at various rates from 9½% to 11%, repayable in monthly installments over 20 and 25 years	2,854,801	2,253,952
First Chicago Leasing Company of Canada Limited capitalized lease obligations, secured, interest at 2.3% and 2.0125% over U.S. prime, balance of U.S. $2,837,573 repayable in quarterly installments ending in 1977	2,934,110	—
First National Bank of Chicago Notes Payable, unsecured, guaranteed by Kaiser Steel Corporation, interest at various rates from 7% to 11.3%, balance of U.S. $1,543,292 repayable in semi-annual installments ending in 1975	1,554,754	2,591,445
Other	15,000	356,083
	57,442,205	109,366,907
Less: Installments due within one year	11,440,556	25,717,146
	$ 46,001,649	$ 83,649,761

Annual long-term debt maturities including payments due under capitalized lease obligations for the years 1974 through 1978 are $11,441,000, $11,532,000, $11,021,000, $10,717,000 and $10,221,000, respectively.

Note F — Capital Stock

On June 25, 1973, shareholders of the company approved an increase in authorized capital from $15,000,000 divided into 15,000,000 common shares with a nominal or par value of $1, to $28,000,000 divided into 28,000,000 common shares with a nominal or par value of $1.

Shares issued during the year were issued in connection with the equity financing program referred to in Note B and are summarized below:

	Date	Number of Shares	Amount Received
Shares issued for cash:			
Kaiser Steel Corporation	June 28, 1973	4,606,105	$ 17,503,199
Mitsubishi Corporation	August 29, 1973	2,392,000	9,089,600
Nine Japanese companies which are consumers of coal exported to Japan	August 29, 1973	4,844,000	18,407,200
		11,842,105	44,999,999
Shares issued for cancellation of debt:			
Kaiser Steel Corporation	June 28, 1973	2,105,263	10,000,000
		13,947,368	$ 54,999,999

As a part of the equity financing program, the company, subject to securing approval of the appropriate regulatory authorities, will issue warrants to public shareholders, entitling them to purchase an aggregate of 2,500,000 shares. The warrants will entitle shareholders to purchase until December 31, 1976 one share of stock for each share held at a price of $2.85 per share.

On August 29, 1973, the Board of Directors of the Company established the 1973 Stock Option Plan under which 500,000 shares of stock of the company may be issued. During the year options for 169,100 shares were granted. Of this amount, 161,900 are exercisable from September 11, 1974 until September 10, 1978 at $3.15 per share and 7,200 are exercisable from December 19, 1974 until December 18, 1978 at $3.65 per share. Option prices were based on the average of the high and low market price of the Company's stock traded on the Toronto Exchange on the date of grant.

At December 31, 1973 Kaiser Steel Corporation held 59.4% of the total issued common shares.

Note G — Restriction on Payment of Dividends

The credit agreements with the Canadian Banks and Mitsubishi Canada Limited prohibit the declaration or payment of dividends prior to July 1, 1974. Subsequent to that date, dividends are prohibited when shareholders' equity is less than $95,000,000, net current assets as defined are less than $7,500,000 and the aggregate dividends paid exceed 50% of the net earnings on a cumulative basis commencing July 1, 1973. Upon termination of Kaiser Steel Corporation's guarantees of the company's indebtedness to the Canadian Banks and Mitsubishi Canada Limited (Note I), dividends cannot be paid when shareholders' equity is below $107,000,000 less payments made after such date on the Canadian Bank and Mitsubishi Canada Limited credit agreements.

Note H — Application of Accumulated Deficit as of June 30, 1973 to Contributed Surplus

The equity purchase agreements executed with Mitsubishi Corporation and the nine other Japanese companies contained a condition which required the company to apply the accumulated deficit incurred as of June 30, 1973 of $32,322,752 against contributed surplus. Shareholders' approval of the transaction was obtained on June 25, 1973 and the entry was recorded in the accounts of the company on August 29, 1973.

Note I — Commitments and Contingencies

The company is obligated to pay to Mitsubishi Canada Limited a service fee of 10 cents per long ton of coal shipped to Japan under the export sales contract.

The company is obligated to make production payments to Crows Nest Industries Limited in the amount of 50 cents per net ton of coal mined and shipped from the property beginning January 1, 1977 until an aggregate amount of $34,000,000 has been paid.

On May 1, 1972, the company entered into a licensing agreement extending until 1992 with Mitsui Mining Company committing it to pay a royalty of U.S. $.15 per long ton of clean coal produced by the hydraulic mining method. The agreement contemplates that a hydraulic mining joint venture will be established with Mitsui after which the royalty payable by the joint venture would be increased to U.S. $.30 per long ton. The agreement further stipulates that the company will receive a paid-up license when a total of U.S. $9,000,000 has been paid to Mitsui as royalties either by the company or any of its affiliates.

The company's wholly-owned subsidiary Westshore Terminals Ltd., has a lease with the National Harbours Board terminating March 31, 1985 with two 15 year renewal options for land used as a coal loading terminal at Roberts Bank. The annual rental is based on a fixed charge of $276,974 plus a variable fee based on tonnage handled by the terminal. The lease expense recorded by the company in 1973 totals $394,282. Westshore's obligations under the lease are guaranteed by the company.

The Canadian Bank and Mitsubishi Canada Limited credit agreements provide that the company must maintain net current assets as defined of not less than $5,000,000. These agreements also provide that Kaiser Steel Corporation's guarantees of the indebtedness outstanding under the respective agreements may be released at Kaiser Steel's option after December 31, 1974 upon the principal conditions that: (a) retained earnings of the company be at least $15,000,000, (b) shareholders' equity be at least $107,000,000, (c) net current assets of the company as defined be at least $7,500,000, (d) cash flow of the company shall have been sufficient to cover debt service to the banks and Mitsubishi Canada Limited during the preceding 12 months (or the preceding 18 months if the guarantees are released after June 30, 1975), and (e) the bank and Mitsubishi loans shall have been secured pari passu by a floating charge on assets. If the guarantees are released, the company is required to maintain (a) shareholders' equity of $107,000,000 less principal payments made after such date under the loan agreements and (b) net current assets as defined of $7,500,000. At December 31, 1973 the company met the foregoing working capital requirements.

Note J — Remuneration of Directors and Officers

	Number of Officers And Directors	December 31, 1973	December 31, 1972
Directors, including three officers of Kaiser Steel Corporation who served without compensation	11	$ 45,245	$ 47,935
Officers, including four officers who are also directors and one officer of Kaiser Steel Corporation who served without compensation	17	543,321	420,883
		$588,566	$468,818

Options to purchase 100,700 shares of stock as described in Note F were granted to officers of the company in 1973.

Note K — Income Tax

The provision for income taxes is applicable to earnings of subsidiary companies. No tax provision is necessary for earnings of the parent company as such earnings are exempt from income tax in 1973 but will be taxable commencing January 1, 1974.

At December 31, 1973, the company and its subsidiaries have a cumulative loss carryforward of approximately $47,000,000 which can be applied against future earnings to reduce taxes that would otherwise be payable thereon. Of this amount $20,300,000 is based on tax returns filed and will expire as follows: $2,200,000 in 1974; $8,600,000 in 1975; $7,200,000 in 1976; $1,600,000 in 1977; and $700,000 in 1978. The balance is represented by depreciation of fixed assets and amortization of preproduction costs which have been charged against operations in the current and prior years but have not been claimed for tax purposes.

Note L — Extraordinary Item

The extraordinary item in 1973 represents the reduction of income taxes otherwise payable by subsidiary companies, due to the application of loss carryforwards. This treatment is in accordance with accounting principles generally accepted in Canada. For purposes of reporting to U.S. shareholders, however, Opinion No. 11 of the Accounting Principles Board of the American Institute of Certified Public Accountants would require such amount instead be included in contributed surplus.

The extraordinary item in 1972 is a provision for loss on the sale and abandonment of certain equipment and facilities.

Note M — Earnings Per Share

Earnings per share are based on the weighted average number of shares outstanding during the year of 15,916,509 in 1973 and 10,000,000 in 1972. No material potential dilution would result from the exercise of outstanding stock options or from the exercise of warrants which will be issued to public shareholders under the equity program.

Note N — Subsequent Events

On January 2, 1974, the company sold its 54-cubic-yard dragline and related parts and supplies for $2,250,000. In 1972, the carrying value of the dragline and associated parts and supplies was reduced by an extraordinary charge against earnings (Note L) when it was decided to offer the equipment for sale because its performance in mountainous terrain had not met original expectations. The company will record a gain on sale of the dragline of approximately $400,000 in the first quarter of 1974.

On January 11, 1974, the company concluded a new two year collective bargaining agreement with the United Mine Workers of America. The wage rate increases negotiated, together with material cost increases approved by the Japanese in October 1973, have exhausted the U.S. 80 cent escalation available under the Japanese sales contract through March 31, 1975. Any additional cost increase not otherwise provided for would adversely affect the company's earnings.

AUDITORS' REPORT

The Shareholders,
Kaiser Resources Ltd.

We have examined the consolidated balance sheet of Kaiser Resources Ltd. and its subsidiaries, as at December 31, 1973 and the consolidated statements of shareholders' equity, earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE ROSS & CO.,
Chartered Accountants.

Vancouver, B.C.,
January 24, 1974.

DIRECTORS AND OFFICERS

DIRECTORS

Edgar F. Kaiser*	Chairman
Graham R. Dawson*	Vice-Chairman
Stephen A. Girard*	Chairman of the Executive Committee
Edgar F. Kaiser, Jr.*	President and Chief Executive Officer
Jack J. Carlson*	President and Chief Executive Officer, Kaiser Steel Corporation
Paul G. Desmarais	Chairman and Chief Executive Officer, Power Corporation of Canada Limited, Montreal
Roger T. Hager*	Chairman, The Canadian Fishing Company Limited, Vancouver
Enji Haseo	Director and General Manager, Coking Coal Department, Mitsubishi Corporation, Tokyo, Japan
R. A. Kjelland	Vice-President, Finance and Planning, Kaiser Steel Corporation
William B. Macdonald	Consultant, Toronto
Ian N. McKinnon	Chairman and President, Consolidated Natural Gas Limited, Calgary
E. E. Trefethen, Jr.*	Vice-Chairman, Kaiser Industries Corporation
E. D. H. Wilkinson, Q.C.	Partner, Russell & DuMoulin, Barristers and Solicitors, Vancouver

*Member, Executive Committee, Kaiser Resources Ltd.

OFFICERS

Edgar F. Kaiser	Chairman of the Board
Graham R. Dawson	Vice-Chairman of the Board
Stephen A. Girard	Chairman of the Executive Committee
Edgar F. Kaiser, Jr.	President and Chief Executive Officer
Robert W. MacPhail	Vice-President, General Manager
Howard E. Cadinha	Vice-President, Finance and Planning, Controller
Walter J. Riva	Vice-President, Mining Operations
Robert H. Gronotte	Vice-President, Engineering
John H. Harvie	Vice-President, Marketing
Ward P. Popenoe	Vice-President, Administration
Bernard E. Olsen	Vice-President, Sales and Transportation
Christopher H. Hebb	Counsel and Secretary
Peter M. Bradbury	Treasurer
William S. Barnum	Assistant Secretary and Assistant Treasurer
E. James Norman	Assistant Secretary
John W. Feist	Assistant Secretary

AUDITORS
Touche Ross & Co.
Vancouver

TRANSFER AGENT
Canada Permanent Trust Company
Vancouver, Calgary, Winnipeg, Toronto, Montreal

REGISTRAR
National Trust Company Limited
Vancouver, Calgary, Winnipeg, Toronto, Montreal

SHARES LISTED
Vancouver, Toronto, and Montreal Stock Exchanges

KAISER RESOURCES

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EVERGREEN PRESS LIMITED

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KAISER RESOURCES LTD.
CONSOLIDATED EARNINGS STATEMENT

(In Thousands of Dollars)

	Three Months Ended June 30, 1973	Three Months Ended June 30, 1972*	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972*
Sales	$ 28,560	$ 17,585	$ 50,315	$ 35,069
Other revenue	64	292	140	347
	$ 28,624	$ 17,877	$ 50,455	$ 35,416
Cost of sales	20,651	12,729	35,605	25,907
Total administrative, general and selling expenses	1,916	1,997	3,800	3,854
Interest	2,415	2,090	4,630	4,179
Depreciation, depletion and amortization of preproduction	3,367	3,352	6,729	6,736
Earnings (loss) from operations	$ 275	$(2,291)	$(309)	$(5,260)
Foreign exchange gain	963	21	1,031	50
Earnings (loss) before provision for income taxes and extraordinary item	$ 1,238	$(2,270)	$ 722	$(5,210)
Provision for income taxes	400	-	802	-
Earnings (loss) before extraordinary item	$ 838	$(2,270)	$(80)	$(5,210)
Extraordinary income tax credit due to loss-carry-forward	400	-	802	-
Net earnings (loss)	$ 1,238	$(2,270)	$ 722	$(5,210)
Per share before extraordinary item	$ .08	$(.23)	$(.01)	$(.52)
Per share after extraordinary item	$ .12	$(.23)	$ .07	$(.52)
Weighted average number of shares outstanding (in thousands)	10,221	10,000	10,111	10,000

* NOTE: 1972 results restated to reflect coal inventory valuations and cost provisions on bases comparable to 1973.

KAISER RESOURCES LTD.
CONSOLIDATED STATEMENT OF FUNDS

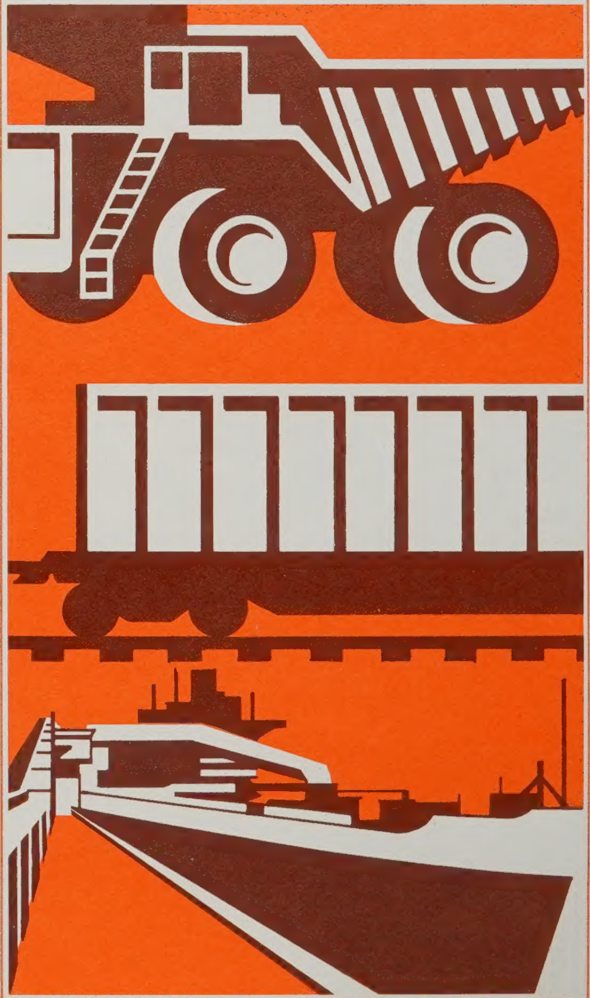
(In Thousands of Dollars)

	Six Months Ended June 30, 1973	Six Months Ended June 30, 1972*
Funds Provided		
Net earnings (loss)	$ 722	$(5,210)
Items not requiring an outlay of funds:		
Amortization of mine development costs	753	787
Depreciation and depletion	5,976	5,949
Funds provided from operations	$ 7,451	$ 1,526
Issuance of capital stock	17,503	-
Long-term borrowing	3,885	7,068
Total funds provided	$ 28,839	$ 8,594
Funds Applied		
Purchase of property, plant and equipment and other assets	$ 6,848	$ 3,225
Reduction of long-term debt	26,498	2,861
Less conversion to capital stock	10,000	-
Total repayments	$ 16,498	$ 2,861
Less payments of current debt	(11,493)	(420)
Reclassification to current	7,251	12,567
Increase (decrease) in working capital	9,735	(9,639)
Total funds applied	$ 28,839	$ 8,594

*NOTE: 1972 results restated to reflect coal inventory valuations and cost provisions on bases comparable to 1973.

KAISER RESOURCES

Report to Shareholders
The First Half of 1973



WESTERN MINER PRESS LTD.

TO OUR SHAREHOLDERS:

We are pleased to report that the Company had second quarter consolidated net earnings of $1,238,000 on record sales of $28,560,000. These earnings included $963,000 from foreign exchange gains realized on debt reduction and extraordinary income of $400,000 from application of tax loss carried forward to income of subsidiary companies. Pretax earnings from operations were $275,000. The consolidated net earnings are equivalent to $0.12 per share, based on 10,221,000 shares, the weighted average number outstanding during the quarter. Before the extraordinary income, the Company had consolidated net earnings of $838,000 or $0.08 per share.

For the second quarter of 1972, the Company had a restated consolidated net loss of $2,270,000 or $0.23 per share on sales of $17,585,000.

For the first six months of this year, the Company had consolidated net earnings of $722,000, including extraordinary income of $802,000, on sales of $50,315,000 or $0.07 per share, based on 10,111,000 shares, the weighted average number outstanding during the half. Before extraordinary income, the Company had a consolidated net loss of $80,000 or $0.01 per share. Pretax loss from operations was $309,000. In the comparable period of 1972, the Company had a restated consolidated net loss of $5,210,000 or $0.52 per share on sales of $35,069,000.

The Company had record shipments of 1,430,000 long tons of coking coal to Japan during the past quarter, compared with 842,000 long tons in the same quarter of 1972 when shipments were adversely affected by a Japanese seamen's strike. With this record volume of shipments, the Company fulfilled the tonnage requirements of the interim agreement with our Japanese customers which expired on June 30. As reported to you earlier, a new coal contract became effective July 1 under which we are now receiving a base price of $19.85 per long ton compared with the previous price of $18.73.

At our mine operations in Sparwood, the preparation plant produced 1,112,000 long tons of coal during the second quarter. At our port facilities at Roberts Bank, Westshore Terminals Ltd. shipped 1,430,000 long tons of Kaiser Resources coking coal and 637,000 long tons of coking coal and petroleum coke from other companies.

On June 28, under the financial restructuring program outlined to, and approved by, shareholders earlier, Kaiser Steel Corporation purchased 4,606,105 shares of Kaiser Resources at $3.80 per share in cash and 2,105,263 shares at $4.75 per share by conversion of a $10 million indebtedness. As part of the next step in this program, necessary approvals have now been obtained from appropriate Japanese governmental authorities as required to permit an investment in the Company by our Japanese customers. The $27.5 million purchase of Kaiser Resource shares at $3.80 per share by 10 Japanese firms is scheduled to be made by August 31 and will be applied toward further reduction of Kaiser Resources debt. The total reduction program will have a significant impact on the Company's debt expenses. The per share earnings figures for the second quarter and first half are based on the weighted average number of shares outstanding during the period. This weighted average includes the new shares issued to Kaiser Steel on June 28, but does not include those soon to be issued to the Japanese investors.

Details of these programs and their impact on the Company were outlined at the Annual Meeting on June 25 by Mr. Girard. A copy of his remarks is enclosed with this Report.

As a result of these successful contract and financial restructuring negotiations, the Company has now formed the basis from which to attain improved profitability. Accordingly, we are anticipating further improvement in results in the second half of this year.

July 25, 1973

Edgar F. Kaiser,
Chairman.

S.A. Girard,
President and Chief
Executive Officer

KAISER RESOURCES

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